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According to traditional literature, liquidity risk in individual banks can turn into a system-wide financial crisis when either interbank credit exposures or bank runs are present. This paper shows that this phenomenon can also arise when individual liquidity risk transforms into system-wide market risk (even in the absence of bank runs and interbank credit networks). This happens when banks try to sell some portion of its assets in order to overcome a liquidity shortage (individual liquidity risk). These sales depress the market price of assets if demand is not perfectly elastic. Given the fact that banks mark to market the asset book, the fall of market price reduces the value of assets of every bank in the system

(system-wide market risk), leaving them less suited for future liquidity shortages and therefore more prone to bankruptcies. The paper rationalizes this idea through the simulation of a model that tries to capture the behavior of a liquidity manager that faces shocks on bank deposits and loans. The main results suggest that the extent of financial contagion depends crucially on the size of the market for assets. Palabras clave: liquidity manager, liquidity risk, market risk, systemic risk, financial contagion, mark-to-market.

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